

Absorption Rate Pricing

“There are only a certain number of houses that will sell in any market in any given period of time.
Let’s see if your house will be one of them.”

If 12 homes sold in the last 12 months in a given market that means that the market will absorb 1 house per month on average. If there are 10 homes currently on the market there is a 10 month supply. A 6 month supply is a balanced market, less is a sellers market and more is a buyers market.

How to Calculate Absorption Rate:

1. Find your search area, criteria, price range, target market segment, time for analysis
 - a. The longer the time the better the overall average
 - b. Shorter times give the latest trends
 - c. Detailed searches give more accurate results
2. How many closed transactions occurred in last 12/6/3 months?
 - a. You find this in the MLS
 - b. Houses not sides of transactions
3. Divide the total closed by the time period.
 - a. # homes closed in the last 12 months
 - $\# / 12 = \#$ homes closing on average every month
 - # homes closed in the last 6 months
 - $\# / 6 = \#$ per month on the last 6 months
4. How many active homes are on the market at this time?
5. Divide the number of active listings by the average sold per month
 - a. $\#$ active for sale / $\#$ average closed per month = $\#$ month supply of houses
6. 6 month supply is a balanced market,
 - a. less than 6 month supply is not enough houses to fill demand
 - b. more than 6 months supply is not enough buyers to purchase the supply

Absorption Rate Models and Trends Analysis

Your City

•Sold homes in last <u>12</u> months	10,938
•Monthly Absorption Rate	911
•Number of homes on the market	8,326
•Months Supply on the market	9

Is it a Buyers or Sellers Market?

Your City - 6 Month Market Trend

•Sold homes in last <u>6</u> months	5,891
•Monthly Absorption Rate	981
•Number of homes on the market	8,326
•Months Supply on the market	8.5

Your City - 3 Month Market Trend

•Sold homes in last <u>3</u> months	3,286
•Monthly Absorption Rate	1,095
•Number of homes on the market	8,326
•Months Supply on the market	7.6

What is the market doing?

Pricing Questions you should ask

What is my pricing strategy?

- What is price range for this house?
 - Where would I like to see this house priced?
 - Where will we be “in line” to get this house sold in the time frame requested by the seller?
 - What are the potential pricing objections they may have?
- What is my walk away price?

Drive the Neighborhood

- Digital Photo of house for brochure
- Check out similar actives/solds
- Condition/open space/busy streets
- FSBO? – Call and get their information
- Look for changes in the Neighborhood (+/-)
- Become the neighborhood expert

Show them Supply and Demand

- Go from “Big Picture” to “Small Picture”
- Pretend to be a buyer
- “How many houses are on the market that the buyer can look at?”
- Buyers select houses based on:
- Style, Location, Price Range

“Front of the Store” Pricing Approach

Net Proceeds Sheet - Show less than full price offer

- “Is that enough to get you to where you want to go on time?”
- “What will it take to get you where you want to go on time?”
- “Based on the Supply and Demand (Absorption Rate Model), how long will it take to sell your house?”
- “Will that work for you?”
- “How much time do you have?”
- “Based on the Supply and Demand (Absorption Rate Model), where do you think we should price your house?”
- “Do you think that price will get you there on time?”
- “If your house doesn’t sell, what is you plan B?”

Would you like to see the odds of your house selling?

Calculate the Odds of Your House Selling

Based on research into MLS's around the United States over the last 5 years we know that the odds of your house selling in any market at any given time is approximately 50% to 65%.

That means that 40% to 50% of all the houses that enter the market WILL NOT SELL!

A seller (and their agent) will believe that all they have to do is put a house into the MLS and it will eventually sell. That is not true.

To calculate the Odds of Your House Selling you must research your MLS to find the following:

1. Determine your search area, price range, target market segment, and time for analysis
 - a. Six months is a perfect search time. Longer search times give incorrect data because houses drop off the market and return with a different agent and MLS number
2. How many closed Transactions occurred in the last 6 months?
3. How many NEW Listings were placed in the MLS in the last 6 months?
 - a. This is not Current Active listings but all the listings entered into the MLS whether they were sold, expired, withdrawn or remain active.
4. Divide the number closed by the number of listings that were placed on the market.

Example:

1. Search MLS for all homes in the High School District between \$250,000 - \$275,000 in the last 6 months.
2. 53 were closed in the last 6 months
3. 128 entered the MLS and were sold, expired, withdrawn or still on the market
4. 53 divided by 128 = 41% of the homes that entered the market sold!

“Oh...By the way...”

“Of the 23,562 Houses that entered the market in the last 12 months...only 10,938 SOLD!

You have a 46%% chance of your house selling with the average agent. If your house does not sell by January 1... What is your plan B?”

“Oh, you mean your neighborhood...”

“Of the 31 houses that came on the market in the last 6 months only 21 SOLD! You have a 68%% chance of your house selling with the average agent.

If your house does not sell by January 1... What is your Plan B?”

“Now...let me show you the odds of selling your house with me!”